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PREFACE

The heartiest congratulation is proffered to the Faculty of Accountancy of UiTM Kedah Branch for the successful organization of the first *International Accounting Colloquium (IAC2023)* in collaboration with Mindanao State University-Iligan Institute of Technology on 31st January 2023. This colloquium marked another milestone for UiTM Kedah Branch as an intellectual hub where stimulating and prolific academic presentations and discussions could always be found.

It is indeed truly encouraging to see UiTM Kedah Branch forging ties with international universities to further strengthen itself in the aspects of research and innovation. This colloquium which covered a wider scope of knowledge had managed to accrue a broad set of perspectives not only in accountancy and business but also in other facets in which those two areas could be applied.

Thus, this colloquium could be viewed as a platform that brought together academicians who were interested in mobilizing innovative and creative global practices in accountancy and business for a sustainable business environment. Hopefully, our valued presenters and participants had not only gained new ideas from others but also managed to share their experiences, ideas and expertise which had been an enriching as well as a fulfilling experience for everyone.

Finally, to all participants and presenters, without your contribution, this colloquium would not have been possible. I would like to take this opportunity to express my immense gratitude and appreciation to you.

Thank you.

PROFESSOR DR. ROSHIMA HJ. SAID
Rector
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PREFACE

Alhamdulillah, my utmost gratitude to Allah SWT as with His blessings and mercy, the *International Accounting Colloquium (IAC2023)* could be successfully held on 31 January 2023. I would like to thank the Rector of UiTM Kedah Branch, Deputy Rectors, and esteemed members of the management for their support and encouragement in making IAC2023 a success. I would also like to extend my heartfelt thanks to Ms. Noora'in Omar, the Chairperson of IAC2023, for her dedication and commitment in accomplishing this program. My humble gratitude also goes to IAC2023 Committee Members and Team for their continuous hard work and effort.

The research effort is essential in educational organizations. Hence, the publication of this online eProceeding comprising of 10 (ten) extended abstracts is an effort by the Faculty of Accountancy, Universiti Teknologi MARA Kedah Branch (UiTM Kedah) to encourage accounting academics to be involved in academic writing. The IAC2023 eProceeding provides a platform for accounting academics to share and disseminate their academic knowledge to a larger audience. The experience gained in writing extended abstracts may help them improve their writing skills and be more confident in producing academic materials in the future.

Finally, the Faculty of Accountancy of UiTM Kedah, organizer of IAC2023, is very proud to share this avenue with academics, students, and industry practitioners. Thanks, and congratulations to all involved.

Thank you.

ASSOCIATE PROFESSOR DR. HAJAH INTAN MARZITA SAIDON
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PREFACE

Alhamdulillah, all praises to Allah, by whose grace and blessings made it possible to conduct our first *International Accounting Colloquium (IAC2023)* on 31st January 2023. This colloquium was organised by Faculty of Accountancy of UiTM Kedah Branch. The main participants were lecturers of UiTM Kedah Brach, Malaysia and Mindanao State University-Iligan Institute of Technology, Philippines. Hence, I would like to take this opportunity to thank the Rector of UiTM Kedah Branch, Deputy Rectors, Head of Centre of Studies and esteemed members of the management for their support and encouragement in making IAC2023 a success.

As a result of the colloquium, we are now publishing an online eProceeding IAC2023 comprising of 10 (ten) extended abstracts covering various topics such as money laundering, fraudulent financial reporting, ESG and sustainability. Some of the articles highlight the current issues in accounting, current development of related concept in accounting and its application in Malaysia and the Philippines. It is hope that this effort will encourage more academicians of local and foreign countries from different backgrounds to present and publish their research in their respective fields.

On behalf of the colloquium organiser, I would like to thank all presenters and authors for your participation and contribution. Special thanks to all the committee members of the *International Accounting Colloquium (IAC2023)*, I owed all of you so much and I want you to know that this is the best team ever!!! Last but not least, to all participants, we hope to see you in our next colloquium.

Thank you.

HAJAH NOORA'IN BINTI OMAR
Chief Editor
eProceeding International Accounting Colloquium (IAC2023)

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Predictors Of Bankruptcy Risk Of Food Franchising Companies In The Philippines

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Abstract
Franchising has revolutionized the way businesses expand. However, only a handful of studies examine the risk of bankruptcy of franchising companies. In fact, seeing financial performance measures being incorporated in previous research about franchising in uncommon. Data of 45 subject companies were gathered and analyzed using Altman's Z"-score in determining the bankruptcy risk. Panel regression was performed and the fixed effects model yielded three significant predictors namely: age, franchise fee turnover, and size. The results indicate that firm size has a strong and positive effect on the Z"-scores. Meanwhile, age and franchise fee turnover exhibit negative effects on the Z"- scores. This implies that bigger franchising companies do not face as much risk of bankruptcy as that of smaller franchising companies. Moreover, older firms and those with high franchise fee turnover are at risk of incurring financial distress. Key informant interviews were performed by interviewing local food franchise companies in order to provide a local context of the results. It is recommended that firms constantly innovate over time in order to be adept with the ever-changing customer demands. Firms with higher franchise fee turnover should efficiently manage the franchise fees in generating sales to avoid bankruptcy risk.

Keywords: Altman's Z"-score; bankruptcy risk; financial performance; franchising; panel regression

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1. Introduction

1.1 Background of the Study

Franchising has long penetrated the Philippine market, with both local and international franchise brands serving the various needs of the Filipino people. Major international food franchise brands like McDonald's, KFC, Dunkin' Donuts, and Burger King, are just a few of the most popular food chains now seen in the different parts of the archipelago. Local brands are led by Jollibee, a home- grown fast-food chain that now rivals the international McDonald's brand. Because of its worldwide significance, franchising has attracted the attention of researchers from different fields in the efforts to explain and expound even further the fundamentals and mechanisms behind such hybrid business concept that is franchising.

However, even with the substantial contribution of the franchising industry, studies examining the firm survival or inversely, failure of franchising firms are few. More so, it is uncommon to see financial performance measures being incorporated in research about franchising [1]. This study focuses on the risk of bankruptcy, or failure, of franchising companies, particularly of food firms in the Philippines. Specifically, this study seeks to narrow the knowledge gap about the bankruptcy risk of food franchising firms by using financial performance ratios in bankruptcy prediction of franchising companies in the Philippines and studying the effects of non-financial factors that may influence franchisor success or failure.

1.2 Objectives of the Study

The study aims to:

1. To measure the financial performance of food franchise companies in order to predict the probability of bankruptcy using the Revised Altman's Z"-score which use the following financial measures:

1. liquidity
2. cumulative profitability
3. profitability
4. Leverage

2. To determine the effect of the following independent variables on the probability of bankruptcy (failure):
1. age
2. royalty
3. franchise fee turnover
4. growth
5. size

2. Materials And Methods

To address the first objective, this study used the revised Altman Z"-score called the "Z double prime" as represented by the formula below in determining the probability of bankruptcy of the sample franchise firms.

$$Z'' = 6.56 (X1) + 3.26 (X2) + 6.72 (X3) + 1.05 (X4) + \varepsilon \quad \text{(Eq. 1)}$$

Where:

Z" = Revised Altman Z score
X1 = Working Capital/Total Assets
X2 = Retained Earnings/Total Assets
X3 = Earnings before Interest and Taxes/Total Assets
X4 = Book Value of Equity/Book Value of Total Debt
ε = the error term

This revised formula was specifically tailored for non-manufacturing firms. In the revised Z", the X5 factor (Sales/Total Assets) was dropped in order to minimize the potential industry effect as asset turnover is considered as an industry-responsive factor. A study by Altman, Hatzell, and Peck (1995) has applied this modified Z" model to companies in Mexico which are considered to be developing market corporates, and the book value of equity was also used in computing X4 in that particular scenario [2]. This study also used book value of equity for X4 since there arno available market data for these privately-held companies as the shares of these companies are not traded on an exchange.

The following are the discrimination zones and their interpretation:

Safe zone: Z" > 2.6; implies that there is less probability that the company will undergo bankruptcy.
Grey zone: 1.10<Z"<2.6; means the firm is at the risk of financial distress.
Distress zone: Z"<1.10; means there is high probability that the company will fail in the coming years.

Based on the objectives of the study and the literature review, the following regression model is specified:

$$Yit = \alpha i - \beta 1AGEit + \beta 2ROYit + \beta 3FRAit + _ \beta 4SIZit - \beta 5GROit + \varepsilon it \quad \text{(Eq. 2)}$$

Where:

Yit is the Altman's Z"-score where i = entity and t = time;
αi (i = 1….n) is the unknown intercept for each entity (n entity-specific intercepts);
βk is the coefficient for each independent variable;
AGEit is the age of firm i during year t;
ROYit is the royalty of firm i during year t;
FRAit is the franchise fee (turnover) of firm i during year t;
SIZit is the system size of firm i during year t;
GROit is the system growth of firm i during year t;
ε it is the error term.

The final model for panel regression used was the fixed effects method. A Key Informant Interview (KII) was also employed to help improve the results of the study and to present local insights from local franchise companies as to their views and applicability of this paper. This paper also employed a full enumeration technique in choosing the franchise firms that will be included in the study, subject to some qualifications.

3. Results And Discussion

The descriptive statistics of the resulting Z"-scores of all 45 subject companies for the years 2011-2015 are presented in Table 1. According to the interpretation of the Z"-scores, majority of the companies were in the distress zone in the years 2011, 2013, 2014, and 2015, as their mean scores are below 1.10. On a per company basis, 51% of these companies were in the distress zone as they have Z"-score means of below 1.10 through the years 2011 to 2015, 22% are in the grey zone, while 27% are considered safe.

Table 1. Descriptive Statistics of the Z"-scores for the 45 Subject Companies

Year	Mean	Median	Standard Deviation	Min.	Max.
2011	-3.21	0.84	25.46	-141.64	72.54
2012	5.88	1.58	45.32	-22.14	296.74
2013	-1.11	1.34	7.18	-26.13	7.07
2014	-2.05	0.94	8.15	-34.74	5.73
2015	-2.09	1.57	9.46	-35.56	4.36

After checking for pre and post diagnostics necessary for the panel regression analysis, the final model displaying the results of fixed-effects panel regression analysis after dropping the variable royalty is shown in Table 2 below.

Table 2. Fixed-effects Model (Dropping Royalty)

	Estimate	Std. Error	t-value	Pr(>|t|)
Age	-2.83212	1.26803	-2.2335	0.0270484 *
Franchise fee turnover	-17.53851	4.82714	-3.6333	0.0003876 ***
Size	31.77300	4.43932	7.1572	3.79e-11 ***
Growth	-0.49451	1.57991	-0.3130	0.7547329

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Unbalanced Panel: n = 42, T = 1-5, N = 191

Total Sum of Squares: 66035

Residual Sum of Squares: 48558

R-Squared: 0.26466

Adj. R-Squared: 0.036455

F-statistic: 13.0471 on 4 and 145 DF, p-value: 4.2205e-09

The fixed effects model returned a 0.17249 R^2 with a very small p-value, implying a good-fit model. However, because of high correlation among the predictors, the researchers measured the VIFs of each predictor and found that there exists high VIFs for franchise fee turnover and royalty with VIFs of 13.118851 and 11.081912, respectively. Correlation of two predictors in the regression, referred to as multicollinearity, inflate the standard errors of the coefficients making them insignificant when they should be significant. Hence, another model was considered still using fixed effects but dropping royalty from the predictors. The model returned a smaller R^2 but still revealed three significant predictors including age, franchise fee turnover, and size. Moreover, the model also returned smaller (<2) VIFs for the remaining predictors. In this model, age, franchise fee turnover, and size are found to have significant effects on our response variable the Z"-scores.

4. Conclusion

The results indicate that age and franchise fee turnover have an inverse relationship with the Z"-scores, while size strongly and positively affects the Z"- scores. This implies that as age and franchise fee turnover increase, the Z"-scores decrease, meaning the risk of bankruptcy increases, noting that the

higher the Z”- scores, the better. Since size positively affects the Z”-scores, it signifies that as the size of the firm increases, the Z”-scores also increase with a large positive coefficient, meaning it significantly decreases the risk of bankruptcy of the subject companies. Future studies into this topic may perform a subset analysis where companies are grouped according to size and analysis be made according to this grouping to minimize the skewness of the data being used and to see if there would be different results from big and small companies.

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